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THE OHIO STATE UNIVERSITY
COLUMBUS, OHIO
43210

THE CAISSE NATIONALE DE CREDIT AGRICOLE OF NIGER DEVELOPMENT, PERFORMANCE AND PRELIMINARY RECOMMENDATIONS

(An interim report by the Research Team of Ohio State University to the USAID Mission, Niamey, Niger*)

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*This report was prepared principally by Professor Mario Masini, University of Bergamo, Italy in his role as a consultant to the OSU research team during January 1986. The report was further amplified and edited by Professor Douglas Graham with the contribution of Dr. Carlos Cuevas, both of The Ohio State University.

INTERIM REPORT

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INTERIM REPORT

THE CAISSE NATIONALE DE CREDIT AGRICOLE OF NIGER: DEVELOPMENT, PERFORMANCE AND PRELIMINARY RECOMMENDATIONS

1. The Long-Term Development History of the CNCA: Issues and Problems

For almost 20 years the Caisse Nationale de Credit Agricole has carried out the function of channelling funds, for the most part indirectly through para-statal organizations, towards the Nigerien rural-sector. The vast majority of the loans currently outstanding are non performing and disbursement of new loans is slowing down. There is a persistent liquidity strain. The CNCA is still poor in skilled human resources and has not developed effective procedures for supplying and managing financial services.

Two factors at the origin of CNCA are useful in interpreting its subsequent performance. First, the new financial institution was created within the framework of the sectoral specialization adopted in shaping Niger's banking system. Accordingly, the CNCA was empowered to carry out only financial operations that would service economic activity in rural areas.

In mature financial systems specialization by sector may occasionally occur as a natural outgrowth of consolidation and concentration of specific skills developed over long periods of time. In a young financial system, on the other hand, specialization by sector is more likely to reflect a lack of concern for the development of financial skills and institutions *per se*. This early specialization tends to create a financial institution that becomes a mere administrative support function in favor of other predefined development goals. The latter attitude seems to apply to the Nigerien case, although it must be recognized that the scope of action of the CNCA was defined originally in its statute in fairly broad terms.

In the second place, the CNCA was created through the division of the Union Nigerienne de Crédit et de Coopération (UNCC) into two separate bodies: the CNCA and the UNCC itself, a public body with administrative purposes incorporated in the former Ministry of Rural Development. The UNCC had originally been established to provide greater central control over cooperatives and with time had taken on a variety of functions from input supply, to credit distribution, peanut marketing, seed distribution, the management of development projects, cooperative education, farmer training, functional literacy, supplying products of primary necessity, and distributing grain in time of scarcity. Some of these functions were subsequently transferred to other specialized agencies, as in the case of the Office des Produits Vivriers du Niger (OPVN), established in 1970, the Office National des Aménagements Hydro-Agricoles (ONAHA) established in 1978, or to specialized services still within the UNCC, like the Centrale d'Approvisionnement (C.A.) created in 1978 and the Ateliers de fabrication de matériel agricole.

When the credit function was passed over to the CNCA, strong links were maintained. For example, by law the Chairman and the members of the board of the UNCC were respectively the Chairman and members of the board of the CNCA; from a functional point of view, the representative of each agency at the department level was one and the same until 1980, when the Government took a firmer stand in trying to set up the CNCA as a full-fledged "agricultural credit institution." The CNCA, moreover, continues to rely heavily on the Offices et Sociétés de'Economie Mixte (OSEM's) both as a device for indirectly channeling credit to farmers and to perform some critical functions in identifying, selecting and monitoring its own direct customers. Transferring the credit function to the CNCA did not automatically create the necessary banking skills nor were the extension and follow-up skills of the OSEM's improved. On the contrary, incentives were created that made the situation worse on both fronts.

The CNCA, trapped by its mission, could not afford to establish contact with its ultimate borrowers in the rural areas because, given its small sized staff, this would imply a reduced coverage and an increased selectivity in credit distribution. Therefore the CNCA's role of working through other institutions to reach the final farm-borrower reduced its chances of learning how to perform effectively its own banking functions. It could not develop direct "bank-customer" relationships. From the point of view of learning processes within the CNCA the situation was not improved when Productivity Projects (PPs) entered the scene. The predefined goals embedded in the projects' programs and prescriptions can erect a strong barrier to any attempt by an external institution, like CNCA, to understand and much less participate in the loan evaluation and loan administration activity where the project operates. This effect is compounded when the project can count on its own lines of credit. In short the CNCA becomes a mere conduit to channel funds rather than actively participating in the decision making process in assessing the risk, and credit-worthiness of potential clients.

The OSEM's and PP's, on the other hand, find in this situation incentives to reduce the quality of their own performance both with regard to supporting services offered to the CNCA and in their own current operations. In the first place, transferring loans from their books to the CNCA obviously reduced the concern and responsibility shown by their own agents in assessing creditworthiness, follow-up activities and credit collection on behalf of the CNCA. In the second place, the opportunity to influence credit allocation and loan repayment can create for the OSEM's and the PP's a situation in which the negative effects of their own possible, inappropriate technological advice and even fraud can be temporarily covered up with resources borrowed directly by them or by their project farmers. The distribution of these loan resources can mitigate the losses growing out of poor research and extension work and reduce the complaints of the farmer-borrowers if they do not have to be repaid. In short, as long as the loan program is labelled "experimental" and the experiment proves deficient, then the OSEM's and PP's can save face with their farmer-borrowers by not pushing aggressively for loan repayment.

Thus, paradoxically, recourse by the CNCA to the OSEM's and PP's for supporting services in credit delivery and loan repayment can possible result in creating incentives and opportunities for these same entities to work against rather than in support of loan repayment. This is to be expected when the same entity that is a borrower (i.e. the OSEM's and PP's) also assumes a role as a credit officer and loan collection agent for another entity which is its creditor such as the CNCA. The conflict of interest inherent in these split roles weakens and eventually destroys rigorous loan management and loan recovery practices.

Thus the CNCA is defenseless because it has very limited control over the resources it lends. This was made clear in 1981-82 when the CNCA tried to enforce a more aggressive loan repayment policy. Angry borrowers managed to divert the sources from which their loans were drawn towards other financial institutions thus precipitating the CNCA into a deeper financial crisis.

In this arrangement the CNCA obviously stands to lose inasmuch as the stated reasons from moving the donor's lines of credit to other financial institutions identifies a false target, i.e. the poor level of service provided by the CNCA. However, the fact that the CNCA did not develop the necessary skills and procedures to provide effective banking services, while true, is somewhat beside the point in a "wholesale" credit distribution system like the one that links the CNCA to the OSEM's and the PP's. The initial identification of lending opportunities, risk assessment and client selection, and related administrative procedures are undertaken by the OSEM's and the PP's staff. On the other hand, the fact that these projects run huge operating deficits, and are not able to reimburse their loans nor control and organize project farmers-beneficiaries to reimburse their own loans, illustrates the true problem area in the system that Niger has adopted for channelling financial resources to the rural sector.

In this framework the financial entity is not considered an intrinsically useful institution in its own right, but rather a mere administrative device completely subordinated to the purpose of channelling credit towards predefined uses. These uses are not chosen by loan beneficiaries, but by a development agency whose task is to stimulate the adoption of specific technologies or practices to increase output. Such an approach does not provide the incentives to develop within the financial institution the appropriate managerial and banking skills, needed to administer a loan portfolio and develop through time a healthy bank-client relationship.

2. Main Structural Features.

The CNCA was established in 1967 (loi n° 67-032, 29.09.1967) as a public sector institution with commercial goals registered in the official list of banking and financial institutions (arreté n.° 364, 17.12.1968). The CNCA is fully owned by the Government of Niger and is under the control of the Finance Minister. Its headquarters are in Niamey and it operates over the entire national territory. Within the limits established by current laws and banking regulations, the CNCA is empowered to carry out any financial operation that could benefit economic activity in rural areas - namely farming and livestock raising (at the production, marketing or transportation levels), fishing and rural handicrafts (décret n° 68-57/MF, 8.04.1968).

According to the by-laws the organizational structure of the CNCA is comprised of the following decision -making bodies; a Board of Directors, a Technical Credit Committee, (which assists the Board of Directors in implementing credit policies and makes decisions concerning loans exceeding CFA F. 300,000); Departmental Technical Committees (COTEDEPs, which evaluate credit granting decisions for Cooperatives at the département level); the Arrondissement Technical Committees (COTEARs, which provide a consultative function for the decisions taken by COTEDEPs); the Director (nominated by the Conseil des Ministres) can be admitted to the Board meetings with consultative functions and can grant credit on his own initiative within a CFA F. 300,000 limit per loan, and Branch Managers (with a credit limit per loan fixed at CFA F. 100,000).

The functional employment structure of CNCA consists of 3 persons in the Direction Générale and four Central Departments: General Affairs (11 persons), Accounting (14 persons), Credit (15 persons), Inspection (2 persons). At the same time the CNCA operates through five branches: Niamey (17 persons), Dosso (10 persons), Tahoua (10 persons), Maradi (12 persons), Zinder (11 persons). Each branch has its own credit section and Accounting and Administrative Section.

The total number of personnel was 109 (of which four are on external training programs) at the end of 1984-85. The distribution of personnel by level and average salary is as follows:

	Number		Average Salary (CFA F.)
	1982-83	1984-85	1984-85
Subordinate Staff	32	33	406,136
Executive Staff	43	24	696,951
Middle Management	20	41	1,261,035
Officers	15	11	2,105,559
Total	110	109	

According to a 1983 survey 60% of the personnel was less than 30 years old and another 30 % was 30 to 40 years old, while 78% did not have a high-school diploma.

3. Liability Management.

The structure of liabilities and capital of the CNCA is reported in Tables 1 and 2. The Ratio of Capital and Reserves to total assets - which will be discussed further on with regard to its impact on profitability - defines the financial leverage of the bank. The lower the ratio, the higher the leverage. Table 2 shows that this ratio varies from a maximum of about 19% at the end of 1978/79 to a minimum of 12.50% at the end of 1982/83 with an average of 15% over the period 1978/79 - 1983/84. This depends on the percentage increase of Reserves and Capital relative to the rate of growth of total assets.

Given the practical absence of inflows of fresh capital, the rate of growth of Reserves and Capital depends - in the case of

TABLE 1

C.N.C.A. - LIABILITIES AND CAPITAL (% composition at end of year)

	1978/79 (1)	1979/80 (2)	1980/81 (3)	1981/82 (4)	1982/83 (5)	1983/84 (6)
Central Bank	52.1	34.6	30.5	30.7	41.9	35.2
Checking Accounts	1.1	2.2	2.1	6.7	4.2	4.0
Current Accounts	1.3	1.4	5.6	2.7	2.1	3.0
Banks & Correspondents	1.9	4.0	5.5	3.6	1.0	-
Deferred Payments	0.8	0.7	2.5	2.5	2.4	2.8
Fixed-term Deposits	17.0	24.6	18.0	18.5	13.6	13.9
Lines of Credit	6.2	14.6	18.0	14.1	13.6	17.4
Adjustment Accounts	0.9	3.4	2.6	7.8	8.6	7.9
Reserves & Guarantee Funds	5.7	4.8	7.3	5.6	5.0	6.2
Undistributed Profits	-	-	-	1.0	1.6	3.1
Capital	12.6	7.9	6.7	5.9	4.8	5.4
Current Profit	0.6	1.9	1.2	1.0	1.1	1.2

Source: CNCA, Rapport d'Activité, 1982/83 and 1983/84

TABLE 2

CNCA: CAPITAL/ASSET RATIOS

	1978/79 (1)	1979/80 (2)	1980/81 (3)	1981/82 (4)	1982/83 (5)	1983/84 (6)
Cap. & Reserves/ Total Assets (%)	18.9	14.6	15.2	13.5	12.5	15.9
Cap. & Reserves Increase (%)	--	21.2	17.4	1.2	14.4	12.6
Total Assets Increase (%)	--	56.7	12.6	14.6	22.6	-10.9
A. Cap. & Reserves (M. CFA F.)	1,357.6	1,646.0	1,931.7	1,955.1	2,237.1	256.2
B. Long-term Assets (M.CFA F.)	181.60	223.9	339.6	392.3	256.5	62.6
A./B. (%)	7.5	7.4	5.7	5.0	8.7	40.3
C. Risky Assets (M. CFA F.)	7,025.2	10,750.0	12,084.0	13.595.8	16,823.1	14,592.6
A./C. (%)	19.3	15.3	16.0	14.4	13.7	17.3

Source: CNCA, Rapport d'Activité, 1982/83 and 1983/84

the CNCA - completely on the rate of accumulation of reserves and undistributed profits. Therefore, any doubt concerning the amount of income devoted to loan loss provisions and net profit affects the effective value of the capital/asset ratio. This is especially relevant when considering the ratio of Capital and Reserves over Long-term Assets or over Risky Assets (as in Table 2) in order to draw conclusions on the financial or risk coverage afforded by the given capital structure. Evidence on the unreliability of the figures for profits or loan loss provisions can sometimes be seen in the level of Extraordinary Items in the Profit and Loss Account and the level of Adjustment Accounts in the Asset and Liabilities Account. The improved risk coverage ratios of the CNCA in Table 2 can be misleading and should be assessed, in light of the growing incidence of Extraordinary Items (which we explore later in Table 12) and of Adjustment Accounts in Table 1. We will return to this issue later.

Capital and Reserves represent long-term resources which in the current institutional arrangements do not bear an explicit cost. Therefore they are considered the cheapest source of funds for the CNCA although the opportunity cost involved in their uses should always be considered.

Selected liabilities in Table 3 identify funds borrowed in domestic and external financial markets. The variability of the rate of growth is very marked among different types of liabilities and especially over time. This is explained by the very narrow base for change and by the concentration of funding

TABLE 3

CNCA - SELECTED LIABILITIES

	1979-80 (1)	1980-81 (2)	1981-82 (3)	1982-83 (4)	1983-84 (5)
		--- Percentage Changes---			
Central Bank	4.01	-0.73	15.32	67.51	-25.17
Checking Accounts	208.20	5.80	273.52	-23.03	-15.90
Current Accounts	64.18	352.02	-45.81	-4.66	27.75
Banks & Correspondents	236.64	54.58	-24.39	-66.43	-100.00
Fixed Term Deposits	126.52	-17.48	17.46	-9.51	-8.87
Ext. Lines of Credit	270.20	39.01	-10.27	18.52	13.73
Total	60.2	10.3	-9.7	49.3	14.3
		---Percentage Composition---			
Central Bank	42.5	38.3	40.2	54.8	47.9
Checking Accounts	2.7	2.6	8.8	5.5	5.4
Current Accounts	1.7	7.0	3.5	2.7	4.1
Banks & Correspondents	4.9	6.9	4.7	1.3	--
Fixed Term Deposits	30.2	22.6	24.3	17.8	18.9
Ext. Lines of Credit	17.9	22.6	18.5	17.9	23.7

Source: CNCA, Rapport d'Activité, 1982/83 and 1983/84

sources for each type of liability. This extreme instability and lack of diversification of funding also affects the aggregate rate of change and, eventually, the overall rate of growth for the institution.

The predominant sources of funds are either from the government or external donors. The Central Bank's rediscount lines accounted for 44.7% of total borrowing, on the average, over the period, while fixed-term deposits (mostly from the Treasury) and external lines of credit from international donors, under very soft conditions, accounted respectively for 22.8% and 20.1% on average. At the end of 1983-84 these sources (3 in all) accounted for 90.59% of CNCA's borrowed funds.

The drop in "checking and current accounts" and in "banks and correspondents" during 1982 and 1983 is related to the already mentioned reaction of project authorities to the new, more aggressive loan repayment stand then adopted by the CNCA and by the cumulative effect of the CNCA's subsequent treasury difficulties on the confidence of other depositors.

The CNCA's composition of borrowed funds, on the other hand, does not stimulate the development of the skills and procedures required to approach the general public for deposit collection. Nor does the CNCA benefit from the incentives that dealing with regular depositors from the public creates in order to improve banking skills and other operating procedures such as effective loan evaluation and risk analysis, liquidity and cash management, and loan recovery practices.

The composition of sources also has an impact on the level and fluctuation of financial charges. The CNCA obtains 60-70% of its borrowed funds (Central Bank rediscounts and Treasury fixed term deposits) at rediscount rates which are systematically higher and stickier than the normal deposit rates for the public established in the Nigerien banking system.

In summary, when the structure of liabilities (i.e. the sources of funding) of a financial institution servicing agriculture is dominated by government rediscount lines of credit or international donor funds, the institution becomes "borrower-dominated." Namely, all the loan procedures and administrative practices are designed to favor borrowers' interest. Detailed farm budget studies and targeted clientele are emphasized (to introduce new technology or increase output) while rigorous credit-worthy analyses on the probability of loan repayment and loan recovery procedures and practices are minimized.

In contrast, when the source of funds is dominated by deposits from the public at large, the institution becomes "depositor-dominated" in its operational philosophy. Loan management and administrative procedures are designed to favor and protect depositor interests. High cost end-use or loan targeting programs are minimized, while loan evaluation and credit-worthiness analyses (including risk analysis) are emphasized. At the same time loan recovery procedures are highlighted and loan recovery efforts are pursued aggressively. Borrower-dominated financial institutions frequently experience severe financial difficulties since financial viability is not a dominant priority. Depositor-dominated financial institutions, on the other hand, are usually much more solvent, since the survival of the financial institution is important for depositor interests and thus institutional viability rapidly becomes a dominant feature of managerial strategy and practices. As the foregoing analysis makes clear, the structure of liabilities (sources of funds) of the CNCA makes it a classic example of a borrower-dominated institution, dependent upon government and donor funds, with all the associated weaknesses of those institutions, in particular its lack of financial viability. We will pursue this theme further in the rest of this report.

4. Asset Management.

The portfolio of financial assets of the CNCA - 99% of which consists of loans and overdrafts - recorded an average annual growth of 17.6 percent over 1979/80 - 1983/84 (including doubtful loans net of provisions). The average rate of growth over the same period, excluding doubtful loans (see Table 4), was 16.9% for overdrafts, 23.1% for short-term loans and 25.7% for medium-term loans. The rates of growth for each type of loan are extremely variable over time possibly because of unstable seasonality coupled with end of period-data and most certainly because of the very high concentration of borrowing entities. The abrupt shifts in program funding through government and international sources (noted earlier in Table 3) introduces equally abrupt shifts in the loan activity documented in Table 4. These rapid shifts in liabilities and assets complicate loan management practices and compromise efficient loan recovery. For example, farm-borrowers (or cooperatives) are not inclined to repay loans to an institution experiencing funding problems, since the reward for repaying a loan (i.e. getting a new loan) appears unlikely. Thus a growing image of instability in funding sources will induce a rising rate of delinquent behavior among borrowers.

Starting in 1983/84 and continuing in 1984/85 a negative rate of change is recorded for all types of loans, not taking into account loans classified as doubtful which tripled over the same period. The decline in total loans outstanding is explained by the decision of the CNCA to stop granting credit to borrowers that did not have an acceptable repayment record, the elimination of all crop season lending, the diversion of "credit programs" from the CNCA towards other banks and towards the development projects themselves.

Seventy percent of the CNCA loan portfolio consists of overdrafts and short-term loans while 30% is comprised of medium term loans in 1983/84 (see Table 4). Overdrafts fall into five main groups (see Table 5). Crop loans until 1983-84 consisted mostly of loans to OPVN and, to a much smaller degree, to Riz du Niger and Sonara; input supply loans mostly to Central d'Approvisionnement; prefinancing loans mainly for Productivity Projects, (i.e. credit granted as an advance on the expected disbursement of lines of credit obtained from external donors or the Fonds National d'Investissement); advances to ONAHA and directly to some Aménagement Hydro-Agricoles; and other advances on current account to Productivity Projects.

TABLE 4

CNCA - FINANCIAL ASSETS

(Increase %)

	1978/79 (1)	1979/80 (2)	1980/81 (3)	1981/82 (4)	1982/83 (5)	1983/84 (6)	1984/85 (7)
Cash, CCP, Central Bank	--	-57.5	541.0	-78.0	112.7	-21.9	--
Banks & Correspondents	--	119.6	37.8	-96.0	284.3	349.5	--
Overdrafts	--	37.8	5.5	21.0	36.4	-16.1	-5.6
Short-Term Loans	--	-30.6	155.9	-10.6	14.4	-13.8	-80.8
Medium-Term Loans	--	111.9	18.1	-0.9	3.5	-4.0	-23.8
Doubtful Loans _less_ Provisions	--	--	29.2	66.2	-63.9	-100.0	--
TOTAL	--	52.9	13.3	10.8	24.0	-12.9	--
				------% Composition------			
Cash, CCP, Central Bank	0.4	0.1	0.7	0.1	0.2	0.2	--
Banks & Correspondents	0.6	0.9	1.0	0.04	0.1	0.6	--
Overdrafts	69.7	62.8	58.5	63.9	70.3	67.7	--
Short-Term Loans	3.5	1.6	3.6	2.9	2.6	2.6	--
Medium-Term Loans	24.3	33.7	35.1	31.4	26.2	28.9	--
Doubtful Loans _less_ Provisions	1.5	1.0	1.1	1.6	0.5	--	--

Source: CNCA, Rapport d'Activite, 1982/83 and 1983/84

Loans in the first 4 groups comprised only 66 accounts in 1983/84 although their share in the total loan portfolio of the CNCA was about 50% in value terms. Other advances on current account comprised another 111 accounts (14% of the total value of loans outstanding). As far as loan concentration is concerned, the situation was practically unchanged in 1984/85 except for the very marked reduction in the value of crop loans partially balanced by the increase in other advances and input supply loans. This situation reflects the fact that overdrafts only benefit farmers indirectly. The customers of the CNCA in this case are neither cooperatives nor individual borrowers in the rural areas, but government agencies with various functions in the Nigerien rural environment such as the marketing of output, input supply, equipment production, territorially or technology based extension services, and project and infrastructure management.

Short-term loans, on the other hand, are concentrated on cooperatives and individuals. They accounted for 52% of the number but only 2.9% of the value of total loans outstanding in 1984/85 (52% and 2.7% respectively in 1983/84). The total number of customers involved in these operations was 1.500 for cooperatives and 3.400 for individuals both in 1983-84 and in 1984-85. The main stated destinations of these loans are the financing of land preparation, farm equipment, cattle fattening programs, horticultural product marketing and irrigated area production campaigns - until the interruption initiated by the CNCA in 1982/83 due to unbearable default problems by the A.H.A.

TABLE 5

CNCA: DISTRIBUTION OF LOANS BY BENEFICIARIES

Beneficiaries	Number of Accounts		Amount Outstanding (M. CFA F.)		Doubtful loans (M. CFA F.)		(%)	
Date	30.9.84 (1)	3.9.85 (2)	30.9.84 (3)	30.9.85 (4)	30.9.84 (5)	30.9.85 (6)	30.9.84 (7)	30.9.85 (8)
Medium - Term								
Cooperatives	1.160	1.160	2,299.4	2,531.8	31.4	362.3	1.37	14.31
OSEMs	5	5	596.3	383.0	--	--	--	--
State	1	1	1,016.1	338.2	--	--	--	--
Individuals	3.219	3.219	665.2	641.0	300.2	298.3	45.13	46.54
Short - Term								
Cooperative	1.548	1.548	208.7	256.3	10.8	256.3	5.13	100.0
Individuals	3.396	3.396	202.0	143.5	74.8	69.7	37.13	48.58
Overdrafts								
Crop loans	2	1	2,522.2	150.9	--	--	--	--
Input supply	5	5	2,629.0	3,430.3	--	--	--	--
Prefinancing	16	16	762.9	567.1	--	--	--	--
Advances ONAHA and AHA	43	43	2,072.7	2,390.9	--	--	--	--
Other Advances on c/a	111	111	2,164.8	3,084.9	189.3	220.0	8.74	7.13
TOTAL	9,506	9,505	15,199.4	13,918.0	606.7	1,206.7	3.99	8.67

Source: CNCA, unpublished data

Medium-term loans accounted for 46% of the number and 28% of the value of total loans outstanding at the end of 1984/85 (46% and 30% respectively at the end of 1983/84). An important although decreasing proportion of these loans (35% at the end of 1983-84 and 19% at the end of 1984/85) is accounted for by the consolidation of loans granted to crop marketing agencies, like OPVN, SONARA, Riz du Niger, and by one loan granted to the Nigerien Government (on which no interest is accruing according to the notes to the financial statement for 1983-84). The rest of the medium-term portfolio is represented by loans to cooperatives and to individuals (65% and 16.5% at the end of 1984-85; and 50% and 14.8% at the end of 1983-84). The main stated destination of loans in the case of cooperatives is the acquisition of collective farm equipment especially within the Productivity Projects. Other stated purposes for individual loans are preparation and planting of orchards, cattle herd reconstitution, seed storage (mainly for groundnuts). The value of the average outstanding loan to cooperatives of medium-term maturity was CFA F. 2.2 M at the end of 1984-85 (CFA F. 1.9 M at the end of 1983-84).

From the above it can be seen that the bulk of retail lending by the CNCA, i.e. loans directly granted to Cooperatives and Individuals, is concentrated in short-and medium-term loans (see Table 6). However, as already mentioned, the proportion of these loans to the total value of loans outstanding is insignificant except for medium-term credit to cooperatives. The average amount per loan is so low - especially for short-term loans

TABLE 6

CNCA: "RETAIL" LENDING

	Proportion of Total Number of Loans (%)		Proportion of Total Value of Loans (%)		Average Amount per Loan (CFA F. '000)		Incidence of Doubtful Loans (%)	
	1983-84 (1)	1984-85 (2)	1983-84 (3)	1984-85 (4)	1983-84 (5)	1984-85 (6)	1983-84 (7)	1984-85 (8)
Short-Term								
Coops	16.3	16.3	1.4	1.8	134.9	165.6	5.2	100.0
Individuals	35.7	35.7	1.3	1.0	59.5	42.3	37.1	48.6
Medium-Term								
Coops	12.2	12.2	15.1	18.2	1,982.3	2,192.6	1.4	14.3
Individuals	33.9	33.9	4.4	4.6	206.6	199.1	45.1	46.5

Source: CNCA, unpublished data.

-that it is difficult to assume that the net interest margin is sufficient to cover operating costs. If, for example, the cost of funds is assumed to be equal to the preferential rediscount rate, this margin is fixed at 2.5 per cent, inclusive of commissions, for all loans to cooperatives. This means CFA F. 2.500 annually on a loan for CFA F.100,000, which represents a cost of about 3 man/hours of work time valued at the average cost of personnel for the CNCA. Clearly more time is spent processing these loans if one includes the entire range of screening, documentation, disbursement and monitoring staff time within the CNCA and its associated para-statal partners. A larger interest rate margin to cover these operational costs and risk is clearly in order. This cost is increased if the loan does not stay on the books for the whole period and appropriate provisions for losses are taken into consideration. As a matter of fact most of the accumulated provisions for losses (70-80%) relate to there retail loans (see column 8, Table 5).

A summary review of the relevant interest rate margins for the main classes of loans in the CNCA are as follows for 1984-85:

	Discount Rate (BCEAO)	Risk Margin (Regulated by BCEAO)	Management Commission Charged by CNCA
Crop loans	8.0%	1.5%	About 1.0%
Input supply loans	8.0	1.5	About 1.0
Prefinancing loans	10.5	5.0	Unspecified
Cooperatives (short and medium-term)	8.0	2.0	0.5
Medium-term (excl. Cooperatives	10.5	5.0	Unspecified

Moving now from the issue of interest rate margins to the loan portfolio itself, it is clear that the quality of the loan portfolio of CNCA has been steadily deteriorating over the years. The CNCA reports as doubtful only those loans granted to individuals and cooperatives because it considers all other loans granted to or guaranteed by the Nigerien Government as secure. For example no provision for loan losses has been accumulated for loans extended to the OSEMs, for crop and input supply loans, for ONAHA and AHA loans nor for prefinancing loans, although many of these loans are clearly non-performing.

The data for doubtful loans reported in column 1 in Table 7, therefore, refer only to loans to cooperatives and individuals and "other advances on current account" while total loans (column 2) include the above mentioned loans to OSEM's and PP's. The CNCA has recently increased the loss provisions against these loans and considers, 100% of the short-term credit to cooperatives and 50% of the short and medium-term credit to individuals as "not recoverable." If we accept, for the moment, this unrealistically narrow definition of non-performing loans, only 8.7% of the total loan portfolio was considered doubtful, and adjusted accordingly with increased loan loss provisions at the end of 1984-85 (4% for 1983-84). An alternative, and more realistic, appraisal of the doubtful loan percentage would consider a substantial part of the loans to government para-statals (OSEM's and PP's) as equally doubtful as those recently written off for cooperatives and individuals. Thus the misleadingly low 8.7 percent estimate

TABLE 7

CNCA - DOUBTFUL LOANS

	Doubtful Loans (M. CFA F.) (1)	Total Loans (M.CFA F.) (2)	Doubtful Loans as % of Total Loans (3)
1982-83	419.3	17,161.7	2.44
1983-84	606.7	15,199.3	3.99
1984-85	1,206.7	13,918.0	8.67

Source: CNCA, Rapport d'Activité 1982-83, 1983-84 and unpublished data in Table 7 could very easily be adjusted upwards to something approaching a substantial majority of the total portfolio.

In this situation the stability of the institution is undermined in many ways. On the one hand, the absence of loan turnover creates great difficulties for the liquidity of the CNCA while, on the other hand, profitability is at stake both because of the increased cost of funds prompted by the liquidity crisis and due to the lost interest income and the loss in the value of assets. These effects can only be hidden partially by accounting practices.

The causes of this poor repayment performance of the CNCA can be traced to its inability to develop the required managerial skills and appropriate procedures to manage its own loan portfolio effectively. However, as suggested in the first part of this report, this poor performance grew out of the government's view that the role of any financial institution in rural development should be to serve as an administrative conduit to service other institutions or objectives rather than achieving financial viability and growth in its own right. As a consequence the main"customers" of the CNCA in its "wholesale" role are not the final farm-borrowers but rather various Government para-statal organizations or productivity projects. Each para-statal agency performs a specific function, in a given rural development program, and credit is tied in as a required input supporting the implementation of various components of these programs. In the end, credit is granted through these supporting agencies and the CNCA is not involved in either assessing credit worthiness and risks, or controlling the use of credit at the final borrowers level.

Thus the CNCA is unable to determine if a borrower's income and cash flow can guarantee complete and timely reimbursement of the loans received. At the same time the Government agencies, that presume to play this role for the CNCA, cannot carry out these tasks effectively. Evidence to this effect can be seen in their own heavy accumulation of arrears whenever the para-statal agencies themselves are direct borrowers from the CNCA (as in the cases of the C.A. and various PP's).

Furthermore, when dealing with these agencies, the CNCA does not seem to have either the tools or the status to analyze the financial profile of the final farm borrowers that these agencies propose for financing to the CNCA. Thus the CNCA has often entered situations for which cash flow projections were doubtful even from a purely administrative point of view (for example in the prefinancing of some productivity projects before budgetary allocations were committed or came on line). At other times the para-statal agency was running operating deficits and covering these deficits withborrowed funds from the CNCA, (e.g., ONAHA). These deficits could be the result of mismanagement by the agencies themselves but sometimes also derived from policies adopted by higher authorities (e.g., the case of insufficient allocation of resources by the government to fund input subsidy programs, resulting in operating losses for the C.A.). it is difficult to imagine that the CNCA could resist the strong pressure to lend (i.e. to help bail out these institutions or make up for "temporary" budgetary shortfalls) when many government authorities have always envisioned its role as a subordinate vehicle to facilitate the financing of other programs.

At the same time, however, the CNCA needs the operating support of these agencies when lending is aimed at the ultimate farm-level user of funds. This becomes necessary when the CNCA funds are expected to reach a larger, more extensive network of village-level cooperatives and farmers than its limited branches or personnel can service. This goal of extensive coverage implies extremely high transaction costs which in fact prevent the CNCA from establishing a direct contact with its customers, while the targeting goal of reaching selected clientele requires a specialized competence again to be found - presumeably - in the external para-statal agencies that interpose their action between the CNCA and its customers. This is good in theory, but the result is that the CNCA ends up performing a purely administrative role, accepting whatever assessment and allocation of credit that is imposed by the external agents that deal directly with the village level final borrowers.

The effect on credit quality is pernicious because the agents have not been trained to assess creditworthiness since this is not their primary goal. Their main concern is directed towards the adoption of specific inputs and technologies. As a consequence of this attitude, the customers often do not even realize that they are "borrowing" money. Furthermore, credit can play a perverse role in making it possible for the agent to push the "wrong" inputs and technologies with the loan resources used to buy the farmers cooperation to adopt these inappropriate inputs. All the above mentioned problems are compounded by weaknesses in loan management procedures that lead to the impossibility of enforcing repayment. Finally, it must be stressed that the perverse learning process that has been introduced by the lack of strong loan recovery efforts, no doubt weakened loan recovery even for borrowers that have a promising repayment capacity.

5. Profitability.

The assessment of the CNCA's profitability depends critically on judgements concerning the real value of its assets and of accrued interest. If the dubious accounting evidence, pointed out earlier, is, for the moment, deemed to reflect the true credit position of the CNCA vs. its customers, and if the questionable policy followed by the CNCA in defining doubtful loans is also accepted, then the results in Tables 11-13 can be discussed accordingly, but with these caveats always in mind.

The findings from these tables show that the CNCA manages to show a positive net return on its Capital and Reserves, which is usually an index of overall efficiency and also correlated to the rate of increase in the permanent funds available to the institution. In general, there is a negative trend, over the past four accounting periods (see Table 9) both the profit margin and in the gross return on Capital and Reserves. The latter is explained by three factors.

The first factor is the decline in the ratio of interest and commissions to average outstanding financial assets (i.e. gross

TABLE 8

CNCA - REVENUE, COSTS AND PROFIT MARGINS (M.CFA F.)

	1978/79 (1)	1979/80 (2)	1980/81 (3)	1981/82 (4)	1982/83 (5)	1983/84 (6)
Income from Financial Oper.	537.5	1,030.8	1,281.5	1,664.0	2,230.6	1,899.5
Charges on CNCA Borrowings	282.5	537.9	682.5	1,053.6	1,486.3	1,001.5
Gross Margin on Fin. Intermediation	255.0	492.9	599.0	610.4	744.3	898.0
Provisions for Loan Losses	42.6	80.0	217.9	159.6	222.5	360.8
Net Margin on Fin. Intermediation	212.4	412.9	391.1	450.8	521.8	537.2
Operational Costs	165.5	181.4	308.9	291.0	324.9	285.2
Operating Margin	46.9	231.5	72.2	159.8	196.9	252.0
Extraordinary Items	-6.1	-15.0	+78.7	-19.8	+3.7	-65.1
Net Profit	40.8	216.5	150.9	140.0	200.6	186.9

Source: CNCA, Rapport d'Activité, 1982/83 and 1983/84

TABLE 9

CNCA - SELECTED FINANCIAL RATIOS

		1979/80 (1)	1980/81 (2)	1981/82 (3)	1982/83 (4)	1983/84 (5)
Gross Return on Cap. & Reserves (%)	(1)	68.6	71.6	85.6	106.4	79.9
Gross Return on Fin. Assets (%)	(2)	11.5	11.1	12.8	14.6	12.0
Incidence of Fin. Assets (%)	(3)	97.0	96.4	94.4	94.0	93.5
Financial Leverage	(4)	6.2	6.7	7.0	7.7	7.1
Profit margin (%)	(5)	21.0	11.8	8.4	9.0	9.8
Net Return on Captial & Reserves (%)	(6)	14.4	8.4	7.2	9.6	7.9

(1) Income from financial ooperations/Av. Capital and Reserves

(2) Income from financial operations/Av. Financial Assets

(3) Average Financial Assets/Average Total Assets

(4) Average Total Assets/Average Capital and Reserves

(5) Net Profit/Income from financial operations

(6) Net Profit/Average Capital and Reserves = (1) x (5) = (2) x (3) x (4) x (5)

Source: CNCA, Rapport d'Activité, 1982/83 and 1983/84

return on financial assets). This is in turn related to the level of interest rates, the relative weight of interest and commissions (depending also on the turnover of the portfolio), the composition of the portfolio of loans and the incidence of non interest bearing financial assets. In relation to these elements the following can be observed: the main interest rates relevant for the CNCA (the normal and the preferential rediscount rates, see Table 10) began to decrease in 1984 after having reached a peak in 1982; overdrafts which bear the highest average return are still dominant in the composition of the portfolio, but lost ground during 1983/84 (see Tables 4 and 11); the gross return on medium-term loans fell sharply in 1983/84 because - according to a note to the annual report - interest on a loan to the State was not recorded; and finally non interest bearing financial assets increased their share over total financial assets during 1982/83 and 1983/84 to create a better liquidity position (see Table 4).

The second factor in explaining the declining trend of the gross return on Capital and Reserves is the decline in the ratio of financial to total assets. This, in turn, depends on the share of real assets and other non interest bearing credit items. Real, non-financial, assets represent a minimal proportion of total assets. The CNCA is still uncontaminated by the marble building syndrome which is so common among the worst performing financial institutions. The relative share of "other assets" in the case of the CNCA tends to reflect the poor accounting procedures in tracking operations and sometimes the existence of disputed or uncertain profit and loss items.

TABLE 10

B.C.E.A.O.: REDISCOUNT RATES

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          1975   1976   1977   1978   1979   1980   1981   1982   1983   1984   1985

TEN (1)   |<-------------------------------- 8.0 ------------->|<--10.5-->|<-----12.5----->|<------10.5

TEP (2)   |<-------------------------------- 5.5 ------------->|<-- 8  -->|<-----10.0----->|<------ 8
```

(1) Taux d'Escompte Normale

(2) Taux d'Escompte Préférential
The preferential rate is limited to crop financing, financing for governement authorities (central and local), housing loans to UMOA's citizens, and loans to small - and medium-sized enterprises with at least 51 percent of the capital held by citizens or institutions of the UMOA with the credit outstanding less than 30 million CFA france.

Source: K.TOH, "Recent Macroeconomic Developments in Niger: Country Situation, Policy, and Outlook", USAID/Niamey, 1984.

TABLE 11

CNCA - AVERAGE RETURN ON LOANS

	1979/80 (1)	1980/81 (2)	1981/82 (3)	1982/83 (4)	1983/84 (5)
Medium Term					
Interest & Commissions (M. CFA F.)	174.8	243.5	270.8	358.4	189.9
Average Capital (M. CFA F.)	2,689.6	3,984.8	4,295.3	4,349.6	4,334.4
Average Return (%)	6.50	6.11	6.30	8.2	4.4
Short Term					
Interest & Commissions (M. CFA F.)	26.1	68.6	29.1	21.3	10.1
Average Capital (M. CFA F.)	208.3	303.6	413.5	418.4	415.8
Average Return (%)	12.53	22.60	7.04	5.09	2.4
Overdrafts					
Interest & Commissions (M. CFA F.)	824.5	949.5	1,359.2	1,846.9	1,644.9
Average Capital (M. CFA F.)	5,885.8	7,009.5	7,952.4	10,289.5	10,917.4
Average Return (%)	14.01	13.55	17.09	17.95	15.07

Source: CNCA, Rapport d'Activité, 1982/83 and 1983/84

The ratio of total assets to Capital and Reserves (financial leverage) amplifies the gross return on Capital and Reserves and, when the profit margin is positive, also the net return on Capital and Reserves. In the case of the CNCA, financial leverage is fairly stable, the value of the positive trend being reduced by a decrease in the ratio for 1983/84. This behaviour is explained only in part by the decision to increase the risk coverage through a higher Capital/Asset ratio. It is also the result of the decline in the growth rate of the CNCA and its limited borrowing capacity.

The ratio of net profit to income from financial operations (the profit margin) shows how much is left of interest income and commissions after interest costs, provisions for loan losses and operating costs have been covered. The profit margin goes from 21.0% for 1979/80 to a trough at 8.4% in 1981/82 slightly increasing to 9.8% in 1983/84 (see Tables 12 and 13).

The incidence of interest costs from the CNCA funding sources in Table 12 fluctuates with the general level of interest rates, but is particularly sensitive to changes in rediscount rates, especially in periods of liquidity strain (like 1982/83), when rediscounts from the central bank increased as a proportion of total liabilities (see Table 3). The incidence of provisions for loan losses generally increased throughout this period in Table 12. This reflected both the underlying deterioration of credit quality and the wise decision adopted by the CNCA to give some evidence of this deterioration, through increased provisions for bad loans granted to cooperative and individuals. The incidence

TABLE 12

CNCA: PROFIT MARGIN (%)

	1979/80 (1)	1980/81 (2)	1981/82 (3)	1982/83 (4)	1983/84 (5)
A. Incidence of Charges on Borrowings (1)	52.2	53.3	63.3	66.6	52.7
B. Incidence of Provisions for Loan Losses (2)	16.2	36.4	26.4	29.9	40.2
C. Incidence of Operating Costs & Taxes (3)	43.9	81.1	64.4	62.3	53.1
D. Incidence of Extra-ordinary Items (4)	6.5	-109.0	12.4	-1.8	-25.8
Profit Margin (5)	21.0	11.8	8.4	9.0	9.8

(1) Financial Charges/Income from Financial Operations

(2) Provisions for loan losses/Gross Margin on Financial Intermediation

(3) Operating Costs and Taxes/Net Margin on Financial Intermediation

(4) Extraordinary Items/Operating Margin

(5) Profit Margin: See Table 9, Note (5)

TABLE 13

CNCA: NET RETURN ON FINANCIAL ASSETS

	1979/80 (1)	1980/81 (2)	1981/82 (3)	1982/83 (4)	1983/84 (5)
Gross Return on Financial Assets (%)	11.5	11.1	12.8	14.6	12.6
Charges on borrowings/ Av. Financial Assets (%)	6.0	5.9	8.1	9.8	6.3
Provisions for Loan Losses/Av. Fin. Assets (%)	0.9	1.9	1.2	1.5	2.3
Operational Costs/ Av. Fin. Assets (%)	2.0	2.7	2.3	2.1	1.8
Extraordinary Items/ Av. Fin. Assets (%)	-0.2	+0.7	-0.2	+0.02	-0.4
Net Return on Financial Assets (%) (1)	2.4	1.3	1.1	1.3	1.2

(1) Also equal to Gross Return on Financial Assets x Profit Margin, see Table 9.

Source: CNCA, Rapport d'Activité 1982/83 and 1983/84

<u>of operating costs</u> shows a negative trend. Personnel costs are the main component. They increased steadily and at a rate higher than inflation until 1982-83. This, however, was due to the increase in the number of personnel with average costs declining in real terms. Overall, the CNCA did not indulge in excessive expenditure and controlled effectively its other operating costs. The <u>incidence of extraordinary items</u> in Table 12 is related to the need to take into consideration profit and loss items that escaped appropriate reporting in previous accounting periods. This item reflects the difficulty of measuring the performance of the CNCA. Relevant factors increasing this item are the inefficiency of the CNCA's information system and the disputes surrounding the relationship between the CNCA and some of its important parastatal clients.

In summary, the various measures of profitability set forth in Tables 11-13, show a trend of declining profits in recent years reflecting the deterioration of the CNCA's portfolio. However these findings are, in fact, even more disturbing in that actual profits (in contrast to accounting profits) are no doubt nonexistent. One must not forget that the item " income from financial operations" in Table 8 forms the basis for estimating the profit ratios in Tables 11, 12 and 13. These estimates are based on "accrued" interest, a conventional accounting term that considers all the hypothetical (but unpaid) interest earnings for delinquent loans of all the OSEM's and PP's as revenue, since it is accruing on the books of the CNCA. If, instead, one were to use actual interest payments received to estimate interest revenue, then the CNCA would be recording losses instead of profits and trends, noted above, would be increased losses rather than declining profits.

6. Conclusions and Preliminary Policy Recommendations.

The deteriorating performance of the CNCA in recent years can be largely traced to poor loan management procedures and practices and to an operational philosophy that prevented the institution from maturing sufficiently to play a relatively "autonomous" role as a true intermediary in the rural development of Niger. The institution has been forced to channel its loan funds to final borrowers on the basis of loan evaluation actions carried out by members of other organizations. It has been compromised, further, in having these same agents of other para-statal organizations undertake loan recovery efforts on its behalf. In short, in being relegated to a wholesaleing role, it has not been able to act as a bank with a staff acquiring on-site loan evaluation, risk management, and loan recovery skills. It has not been able to develop direct contact with final borrowers that can mature into a healthy bank-client relationship built on trust and understanding. Instead, it has been relegated to a subordinate role as an administrative conduit channeling funds earmarked by agents from other institutions promoting new technology, adoption of new inputs, etc. with the financial viability of the CNCA itself implicitly minimized as a predominant priority.

The instability of funding sources in the structure of liabilities of the CNCA also introduces uncertainty into the CNCA's loan programs and complicates loan administration. Furthermore, with all funding coming from international donors or the government's rediscount lines, the CNCA has become a "borrower-dominated" institution. Its organizational framework has created incentives to promote procedures and practices favoring borrowers' interests. Targeting criteria to reach selected farmers with new inputs is emphasized, while creditworthiness, risk analysis and loan recovery procedures and efforts are minimized. The financial viability of the institution is not an overriding priority and continual infusions of funds have been needed to subsidize the high lending costs associated with the expensive delivery of credit and the high incidence of delinquent loans. The CNCA is a classic example of a borrower dominated institution.

To turn this situation around, efforts will have to be undertaken to make the CNCA a less borrower dominated institution. This involves a substantial reordering of priorities, a drastic change in the philosophy of what a financial institution should and should not do. Foremost in this reordering of priorities is to accept the fact that financial services (both deposit and loan services) and financial intermediation (between savers and depositors and between regions) can make a positive contribution to economic development. However, this positive contribution cannot be made through unviable financial intermediaries. Put differently, a financially viable, self sustaining, and relatively autonomous financial institution, operating in its initial years at a level perhaps only 20 to 30 percent of the scale of the CNCA at the height of its operations in the early 1980s, can make a more lasting and meaningful contribution to the long run development goals of Niger than an unviable, transitory, borrower-dominated institution can accomplish by pushing loans, on a one time basis, to a much larger number of recipients in its early phase of growth.

The smaller institution, built on more careful loan evaluation, risk analysis and more aggressive loan recovery efforts, would be developing banking skills to protect its long run viability. At the same time, it would be developing a healthy bank-client relationship with a reduced number of clients on a "continuing" basis. This would be built on trust and confidence that the institution is serious, non-political, with only minimal arrears, and able to provide future services because it is viable and able to turn over its portfolio for new loans. In contrast, the larger, more borrower dominated institution, though initially reaching a much larger number of "recipients" (rather than clients), would quickly be forced to abandon its role as a "financial" institution and become merely an administrative conduit that would eventually destroy its viability. The input delivery service could not be sustained, except through continual infusion of new funds to offset the rising rate of loan delinquency. There would be no effective "learning" of true banking skills, as described above for the smaller institution, and clearly no careful inculcation of a healthy "bank-client" relationship with its recipients. These recipients, quite correctly, would note the "unviability" and "instability" of this institution, and quickly conclude that it doesn't pay to repay loans, since there would likely be no new loans available (as a reward for good behavior) for those who do. Thus an "unviable" institutional image induces and reinforces delinquent behavior on the part of its borrowers.

In summary, there is a pressing need to alter the operational philosophy behind the current "model" of supplying rural financial services in Niger. The following suggestions are offered for discussion among donor and Nigerien officials. They are in no way intended to be definitive and the OSU team recognizes that some may not be ideally suited for the Nigerien setting. However we hope the insights offered will lead to a fruitful dialogue between donors and Nigerien authorities to restructure the current model for supplying rural financial services in Niger. In brief they are as follows:

1. Size and Pace of Development: Any new institution should initially be relatively small in size and scope. This will allow for a more careful absorption of appropriate loan management procedures; "learning" better liquidity and asset management skills, and carrying out loan recovery practices effectively. Important here is to avoid taking on large project clientele that could overwhelm its loan management capacity. This new institutional initiative could be undertaken in several branch settings on a "pilot" project basis.
2. Widening The Base of Financial Services to Include Deposit Services: (a) Deposits from the public at large

(similar to those in the post office network) offer an antidote to relying too heavily on government and external funding resources that create a "borrower-dominated" bias in the institution. The more an institution relies on local deposits, the more concerned it becomes about maintaining financial viability to protect local depositor interests; (b) In the near future, the major source of potential depositors, for the limited number of branches envisioned here, would be the inhabitants and producers in and around the regional towns of Niger (where the branches would be located). The more dispersed farm level producers would make up a clear minority. This more "depositor-dominated" institution would generate a healthy influence, inducing a sense of managerial discipline and responsibility guaranteeing more careful loan evaluation and loan recovery efforts; (c) Deposit behavior would also generate useful information for the institution to determine the creditworthiness of potential borrowers, and; (d) Safe, convenient deposits with a positive rate of return also represents a useful service to rural producers. Deposit services offer these producers short term, easy liquidity to smooth out seasonal fluctuations in their cash flow needs, as well as a secure alternative to holding all of their savings in risky physical inventories (crops and livestock) subject to disease, drought, spoilage and theft.

3. Diversification of The Loan Portfolio: This accomplishes several objectives. Most important is the "diversification of risk" that all viable lenders must incorporate into their asset management strategies. Loans should not be too heavily concentrated into the riskiest operations and clientele. Long term loans, associated with risky or problematical technological packages, should be minimized, and short term seasonal loans in agriculture emphasized. Shorter term seasonal loans are easier and less costly to administer and recover, and more susceptible to developing a continuous bank client relationship through time. Short term loans also "turnover" more rapidly than longer term loans, thereby adding more to the stream of interest earnings of the institution. Finally, some non-agricultural artisan and commercial loans from rural areas should be incorporated into the portfolio. Not only does this diversify risk (and offer credit to other "legitimate" rural activities), but it also helps "smooth out" the seasonal liquidity flows within the institution by introducing a different seasonal sequence of disbursement and recovery than agricultural loans to cooperatives and farmers.

Where possible, loans to "monopsonistic" marketing agencies may be considered since they offer a secure conduit for guaranteeing repayment of farmers' loans in specialized crops; however, this presumes that the marketing agent is a reliable intermediary on behalf of the new institution.

4. Relationship to Donors and Para-statal Organizations: The small, fledgling financial institution envisioned here should be protected from managing a portfolio (and dealing with a clientele) that could overwhelm its limited managerial capacity. This means that large donor projects, promoting risky, long term technological packages for a large number of participants, should not be "initially" drawn into the portfolio of this smaller scale institution. By the same token the institution should be protected from being forced to deal with potentially unresponsible para-statal clientele for reasons that are all too obvious.

Donor support should be directed more towards loan guarantees, technical assistance, and subsidizing the build up of new human capital for this institution. This would imply transforming the civil servant mentality to one incorporating more business-oriented, banking skills in liquidity and asset management, risk and credit-worthiness analyses, etc. At the same time, new "performance indicators" should be developed in which donors would reward good performance by matching the domestic deposit mobilization and good loan recovery efforts rather than emphasizing quick loan disbursements to high cost, targeted clientele. In the same vein, donors should minimize the costly screening, documentation and reporting requirements on the final alleged clientele of the institution and, instead, emphasize documentation of loan recovery analyses and related loan management and accounting procedures that directly contribute to the viability of the institution.

5. Internal Management Reforms: The dimensions of reorganization and reform outlined above imply substantial managerial changes from those that have characterized past practices in the CNCA. Broadening the range of financial services to include deposit services, and diversifying the portfolio into a less risky mix of short and medium term loans and non-agricultural as well as agricultural loans, calls for skills in liquidity and cash flow management between liabilities and assets, and portfolio and risk analysis. All these managerial responsibilities are inherent to an institution that presumes to break away from a simple wholesale lending role into one that undertakes greater decentralized, autonomous, retail functions of servicing a diverse loan and deposit clientele. Finally some degree of "accountability" should be built into the managerial roles. Managers registering a good performance on effective documentation and control of loan evaluation, loan recovery, and deposit mobilization should be rewarded accordingly. No comparable rewards should be available for poor performance.

Given this challenge, starting small and growing slowly with experience is advisable. Moreover new information systems are necessary to document and produce the appropriate financial and economic data needed for effective decisionmaking on loan evaluation, risk analysis, and loan recovery efforts. Microcomputers with suitable software programs are indispensible tools to process quickly the information needed to track and forecast loan performance, identify potential problem areas and trigger effective loan recovery actions. International donor support in training the human capital base and financing the hardware and software investments in this pilot project could make an important contribution in launching a new model of supplying financial services to rural Niger.

The above agenda identifies some of the more important problem areas that should be addressed in any restructuring and reform of the institutional supply of rural financial services in Niger. The more explicit role for financial intermediation per se pointed out above (i.e. mobilizing deposits as well as allocating credit) suggests that a more full service dimension should be considered, in order to benefit from information economies and the efficiencies gained through the increased scope of services offered rural clientele. The diversification of the portfolio not only reduces risk, but allows for a greater rate of return through more rapid loan turnover. The small pilot project approach makes sense to gain experience and allow for adjustments as the experiment continues. Finally the new operational framework represents a fruitful challenge to government officials, on the one hand, and international donors on the other hand, to rethink their past mistaken approaches to the issue of creating a viable financial intermediary for rural Niger.